

TOWN OF GENOLA

FINANCIAL STATEMENTS

JUNE 30, 2006

TOWN OF GENOLA
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CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITOR'S REPORT

Honorable Town Council
Town of Genola
Genola, UT

January 19, 2007

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Genola as of and for the year ended June 30, 2006 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Genola's management. Our responsibility is to express opinions on these financial statements based on our audit.

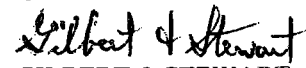
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Genola as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007, on our consideration of the Town of Genola's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 2 through 6 and page 30 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Genola's basic financial statements. The impact fee schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The impact fee schedule has not been subjected to auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.


GILBERT & STEWART
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Genola, we offer readers of Genola's financial statements this narrative overview and analysis of the financial activities of the Town of Genola for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the financial statements that follows this section.

FINANCIAL HIGHLIGHTS

- The total net assets of the Town increased \$594,361 (17.1%) to \$3,467,686. The governmental net assets increased by \$344,159 and the business-type net assets increased by \$250,202.
- The total net assets of \$3,467,686 are made up of \$2,727,748 in capital assets net of related debt and \$739,938 in other net assets.

REPORTING THE TOWN AS A WHOLE

This discussion and analysis is intended to serve as an introduction to the Town of Genola's basic financial statements. Genola's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of Genola's finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Genola's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Genola is improving or deteriorating. However, you will also need to consider other non-financial factors.

- *The statement of activities* presents information showing how the Town's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Both of the government-wide financial statements distinguish functions of Genola that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

REPORTING THE TOWN'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Genola also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

- **Governmental funds** - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund and Capital Projects Fund.

- **Proprietary funds** - The Town of Genola maintains one type of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Genola uses enterprise funds to account for the Water Utility. As determined by generally accepted accounting principles, the Water enterprise fund meets the criteria for major fund classification

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Genola, assets exceed liabilities by \$3,467,686.

By far the largest portion of Genola's net assets (78.7%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, and machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the Town of Genola's net assets

Net Assets

June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	528,771	516,937	241,879	238,180	770,650	755,117
Capital assets	1,229,895	895,411	1,517,853	1,272,850	2,747,748	2,168,261
Total assets	1,758,666	1,412,348	1,759,732		3,518,398	2,923,378
Other liabilities	50,712	48,553	0	1,500	50,712	50,053
Long-term liabilities outstanding	0	0	0	0	0	0
Total liabilities	50,712	48,553	0	1,500	50,712	50,053
Net assets:						
Invested in capital assets, net of related debt	1,229,895	895,411	1,517,853	1,271,350	2,747,748	2,166,761
Restricted	61,418	42,997	123,755	138,677	185,173	181,674
Unrestricted	416,641	425,387	118,124	99,503	534,765	524,890
Total net assets	1,707,954	1,363,795	1,759,732	1,509,530	3,467,686	2,873,325

The following table summarizes the Town of Genola's Changes in Net Assets.

Changes in Net Assets

June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	151,358	109,867	89,652	88,864	241,010	198,731
Operating grants and contribs	7,967	11,281	0	0	7,967	11,281
Capital grants and contribs	422,684	163,438	280,800	163,500	703,484	326,938
General revenues:						
Property taxes	46,903	44,436	0	0	46,903	44,436
General sales and use tax	104,570	91,540			104,570	91,540
Franchise tax	91,672	69,040			91,672	69,040
State Liquor Tax	633	685	0	0	633	685
Unrestricted investment earnings	20,830	11,774	7,113	4,133	27,943	15,907
Other			0	0	0	0
Total revenues	846,617	502,061	377,565	256,497	1,224,182	758,558
Expenses:						
General government	128,032	120,104			128,032	120,104
Public safety	152,913	140,063			152,913	140,063
Highways and public works	84,866	112,714			84,866	112,714
Parks and recreation	136,647	126,443			136,647	126,443
Interest on long-term debt	0	0			0	0
Water Utility			127,363	126,768	127,363	126,768
Total expenses	502,458	499,324	127,363	126,768	629,821	626,092
Increase in net assets	344,159	2,737	250,202	129,729	594,361	132,466
Net assets - beginning	1,363,795	1,361,058	1,509,530	1,379,801	2,873,325	2,740,859
Net assets - ending	1,707,954	1,363,795	1,759,732	1,509,530	3,467,686	2,873,325

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spend-able resources. Such information is useful in assessing the Town's financing requirements. As of the June 30, 2006, the Town's governmental funds (General & Capital Projects) reported combined fund equity of \$476,375. This represents a increase of (\$9,900) over last year's ending balances. The General Fund is the chief operating fund of the Town. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represent 43.6% of total general fund revenues. The largest element of taxes is sales and use taxes as it has been for the last several years. It represents 43% of total tax revenues and 18% of total general fund revenues.

As stated earlier, the Town maintains an enterprise fund to account for the business-type activities of the Town. The separate fund statements included in this report provides the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund original budget was amended from an original budget expenditure total of \$407,546 to a final budget of \$559,928. A major contributing factor in the increase was additional park expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - The Town of Genola's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$2,747,748 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, etc.), and machinery and equipment.

Major capital asset events during the current fiscal year included the following:

- **Payment to architect for new fire station \$20,000.00.**
- **Purchase of addition equipment and improvements to Town's Parks for \$37,768.39.**
- **Maintenance and rebuilding of existing streets within the Town, \$74,836.13**
- **Improvements to the Water Distribution System for \$193,162.62**

The following table summarizes the Town of Genola's changes in Capital Assets.

Capital Assets
June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Invested in capital assets, net						
Land	98,840	18,640	750	750	99,590	19,390
Construction in Progress	20,000				20,000	
Building	50,472	53,026			50,472	53,026
Equipment	242,986	293,545	9,000	12,000	251,986	305,545
Water Stock			14,071	14,071	14,071	14,071
Improvements			1,494,032	1,246,029	1,494,032	1,246,029
Infrastructure	817,597	530,200	0	0	817,597	530,200
Total net assets	<u>1,229,895</u>	<u>895,411</u>	<u>1,517,853</u>	<u>1,272,850</u>	<u>2,747,748</u>	<u>2,168,261</u>

Additional information on the Town's capital assets can be found in the notes to this financial report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The General Fund budget for the fiscal year-ending June 30, 2007 reflects an increase of 30% over the final budget for the fiscal year-ended June 30, 2006. The increase in budget is related to the construction of the new fire station.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Genola's finances for all those with an interest in the Town's finances. Questions concerning any information provided in this report or requests for additional financial information should be addressed to the Finance Director, Town of Genola, 74 West 800 S., Genola, UT 84655.

TOWN OF GENOLA
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 423,450	\$ 204,265	\$ 627,715
Accounts Receivable, net	-	37,614	37,614
Property Tax Receivable	51,123	-	51,123
Sales Tax Receivable	20,679	-	20,679
Intergovernment Receivable	19,702	-	19,702
Court Receivables	3,086	-	3,086
Other Receivables	4,766	-	4,766
Prepaid Insurance	5,965	-	5,965
Capital Assets (net of accumulated depreciation):			
Land	98,840	750	99,590
Construction in Progress	20,000	-	20,000
Buildings	50,472	-	50,472
Equipment	242,986	1,503,032	1,746,018
Water Stock	-	14,071	14,071
Infrastructure	817,597	-	817,597
Total Assets	<u>1,758,666</u>	<u>1,759,732</u>	<u>3,518,398</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	2,712	-	2,712
Deferred Revenue	48,000	-	48,000
Total Liabilities	<u>50,712</u>	<u>-</u>	<u>50,712</u>
NET ASSETS			
Invested in Capital Assets, net of related debt	1,229,895	1,517,853	2,747,748
Restricted for:			
Impact Fees	61,418	123,755	185,173
Unrestricted	416,641	118,124	534,765
Total Net Assets	<u>\$ 1,707,954</u>	<u>\$ 1,759,732</u>	<u>\$ 3,467,686</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Activities
For the Year Ended June 30, 2006

<u>Function/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenues & Changes in Net Assets</u>		
	<u>Operating</u>		<u>Capital</u>	<u>Primary Government</u>		
	<u>Charges for Services</u>	<u>Grants and Contributions</u>	<u>Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:						
General Government	\$ 128,032	\$ 77,206	\$ -	\$ (50,826)	\$ -	\$ (50,826)
Public Safety	152,913	-	2,485	(142,461)	-	(142,461)
Highways and Public Works	84,866	-	403,899	319,033	-	319,033
Parks and Recreation	136,647	74,152	16,300	(46,195)	-	(46,195)
Total Governmental Activities	502,458	151,358	422,684	79,551	-	79,551
Business-type Activities:						
Water Fund	127,363	89,652	280,800	-	243,089	243,089
Total Business-type Activities	127,363	89,652	280,800	-	243,089	243,089
Total Primary Government	\$ 629,821	\$ 241,010	\$ 703,484	79,551	243,089	322,640
General Revenues:						
Property Tax				46,903	-	46,903
Sales and Use Tax				104,570	-	104,570
Franchise Tax				91,672	-	91,672
State Liquor Tax				633	-	633
Unrestricted Investment Earnings				20,830	7,113	27,943
Total General Revenues				264,608	7,113	271,721
Change in Net Assets				344,159	250,202	594,361
Net Assets - Beginning				1,363,795	1,509,530	2,873,325
Net Assets - Ending				\$ 1,707,954	\$ 1,759,732	\$ 3,467,686

See accompanying notes to the financial statements

TOWN OF GENOLA
Balance Sheet
Governmental Funds
June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 171,919	\$ 251,531	\$ 423,450
Receivables (net):			
Property Tax	51,123	-	51,123
Sales Tax	20,679	-	20,679
Intergovernment	19,702	-	19,702
Court	3,086	-	3,086
Other	4,766	-	4,766
Prepaid Insurance	5,965	-	5,965
Total Assets	<u>\$ 277,240</u>	<u>\$ 251,531</u>	<u>\$ 528,771</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 1,868	\$ -	\$ 1,868
Payroll Liabilities	844	-	844
Deferred Revenue	49,684	-	49,684
Total Liabilities	<u>52,396</u>	<u>-</u>	<u>52,396</u>
Fund Balances:			
Reserved for:			
Road Impact Fees	25,673	-	25,673
Park Impact Fees	35,745	-	35,745
Unreserved, reported in:			
General Fund	163,426	-	163,426
Capital Projects Fund	-	251,531	251,531
Total Fund Balances	<u>224,844</u>	<u>251,531</u>	<u>476,375</u>
Total Liabilities and Fund Balances	<u>\$ 277,240</u>	<u>\$ 251,531</u>	<u>\$ 528,771</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Balance Sheet Reconciliation to
Statement of Net Assets
June 30, 2006

Total Governmental Funds Balances	\$ 476,375
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,229,895
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Long-term assets not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>1,684</u>
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Total Net Assets of Governmental Activities	<u><u>\$ 1,707,954</u></u>
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See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes	\$ 243,370	\$ -	\$ 243,370
Licenses and Permits	30,278	-	30,278
Intergovernmental	121,634	-	121,634
Charges for Services	74,152	-	74,152
Fines and Forfeitures	19,316	-	19,316
Miscellaneous	68,869	11,173	80,042
Total Revenues	<u>557,619</u>	<u>11,173</u>	<u>568,792</u>
EXPENDITURES			
Current:			
General Government	123,355	-	123,355
Public Safety	114,718	20,000	134,718
Highways and Public Works	145,416	-	145,416
Parks and Recreation	155,403	-	155,403
Total Expenditures	<u>538,892</u>	<u>20,000</u>	<u>558,892</u>
Excess (Deficit) of Revenues Over (Under)			
Expenditures	18,727	(8,827)	9,900
Net Change in Fund Balances	<u>18,727</u>	<u>(8,827)</u>	<u>9,900</u>
Net Assets - Beginning	206,117	260,358	466,475
Net Assets - End	<u>\$ 224,844</u>	<u>\$ 251,531</u>	<u>\$ 476,375</u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Changes Reconciliation to
Statement of Activities
For the Year Ended June 30, 2006

Net Change in Fund Balances of Governmental Funds	\$ 9,900
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Amounts reported for governmental activities in the statement of activities are different because:

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.	278,050
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(225)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	<u>56,434</u>
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Change in net assets of governmental activities	<u><u>\$ 344,159</u></u>
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See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Net Assets
Proprietary Fund
June 30, 2006

	Business-Type Activities - Enterprise
	<u>Water Fund</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 204,265
Accounts Receivable, net	37,614
Total Current Assets	<u>241,879</u>
Noncurrent Assets:	
Land	750
Water Stock	14,071
Water Distribution System	1,863,683
Water Well & Storage Tank	244,383
Equipment and Machinery	49,409
Less: Accumulated Depreciation	<u>(654,443)</u>
Total Noncurrent Assets	<u>1,517,853</u>
Total Assets	<u>1,759,732</u>
LIABILITIES	
Current Liabilities:	
Total Liabilities	<u>-</u>
NET ASSETS	
Invested in Capital Assets, net of related debt	1,517,853
Reserved Water Impact Fees	123,755
Unrestricted	118,124
Total Net Assets	<u><u>\$ 1,759,732</u></u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

	Type Activities Enterprise Fund <u>Water Fund</u>
Operating Revenues:	
Charges for Services	\$ 89,652
Operating Expenses:	
Salaries and Benefits	18,368
Maintenance and Supplies	12,833
Utilities	9,750
Insurance	3,800
Payroll Taxes	1,389
Depreciation	73,755
Services	2,548
Other	4,920
Total Operating Expenses	<u>127,363</u>
Operating Income (Loss)	<u>(37,711)</u>
Non-Operating Revenues (Expenses):	
Interest Income	7,113
Federal Grant	110,000
Impact Fees	39,000
Total Non-Operating Revenues (Expenses)	<u>156,113</u>
Income (Loss) before Capital Contributions	<u>118,402</u>
Capital Contributions	131,800
Changes in Net Assets	<u>250,202</u>
Net Assets - Beginning	1,509,530
Net Assets - Ending	<u><u>\$ 1,759,732</u></u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise <u>Water Fund</u>
Cash Flows From Operating Activities	
Receipts from Customers	\$ 76,983
Payments to Suppliers	(35,240)
Payments to Employees	(18,368)
Net Cash Provided (Used) by Operating Activities	<u>23,375</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Capital Assets	(186,958)
Impact Fees	39,000
Performance Bond	(1,500)
Federal Grants	110,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(39,458)</u>
Cash Flows From Investing Activities	
Interest Received	<u>7,113</u>
Net Cash Provided (Used) by Investing Activities	<u>7,113</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(8,970)
Cash and Cash Equivalents - Beginning	213,235
Cash and Cash Equivalents - Ending	<u><u>\$ 204,265</u></u>

See accompanying notes to the financial statements

TOWN OF GENOLA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

	Business-Type Activities - Enterprise <u>Water Fund</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Income	\$ (37,711)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	73,755
(Increase) Decrease in Accounts Receivable	<u>(12,669)</u>
Total Adjustments	<u>61,086</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 23,375</u>
 Noncash investing, capital, and financing activates	
Contributions of capital assets from developers	\$ 131,800

See accompanying notes to the financial statements

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Genola (the Town) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The Town applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the Town are discussed below.

Reporting Entity

The Town of Genola was incorporated in under the laws of the State of Utah. The Town operates under a Mayor-Council form of government.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include 1) charges to customers or applicants who purchase, use directly benefit from goods, services, or privileges provided by a given function or activity and 2) grants and contributions that are restricted to meeting the operational or capital requirements of particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

Measurement Focus, Basis of Accounting and Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Sales taxes, use taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Property taxes are measurable as of the date levied (assessed) and are recognized as revenue when they become available. Available means when due, or past due, and received within the current period or collected soon enough thereafter to be used to pay liabilities of the current period. All other revenues are considered to be measurable and available only when the Town receives cash.

The Town reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* accounts for financial resources used for the acquisition or construction of major capital improvements (other than those financed by Proprietary Funds).

The Town reports the following major proprietary fund:

The *water fund* accounts for the activities of the Town's water production, treatment and distribution operations.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

Activities of this fund include administration, operations and maintenance of the water systems and billing and collection. This fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for all water fund debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted, if necessary, to ensure the integrity of the funds.

As a general rule, the effect of inter-fund activity has been eliminated from the government financial statements. Exceptions to this general rule are payments to the general fund by various enterprise funds for the providing of administrative and billing services for such funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principal operating revenues of all enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities, and Net Assets or Equity

A. Cash and cash equivalents

Cash includes cash on hand, demand deposits with banks and other financial institutions, and deposits in other types of accounts or cash management pools that have the general characteristics of demand deposit accounts. Town policy allows for the investment of funds in time certificates of deposit with federally insured depositories, investment in the Utah Public Treasurer's Investment Fund (Fund) and other investments allowed by the State of Utah's Money Management Act. Investments are reported at fair value. The Fund operates in accordance with state laws and regulations. The reported value of the Town's cash in the Fund is the same as the fair value of the Fund shares.

Cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and so near maturity that they present insignificant risk of changes in value because of changes in interest rates. Investments with maturities of three months or less, when purchased, meet this definition.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (*Continued*)

B. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

C. Restricted Assets

Cash, which is restricted to a particular use due to statutory, budgetary or bonding requirements, is classified as "restricted cash" on the Statement of Net Assets and on the Balance Sheets. Restricted cash would be spent first and then unrestricted resources would be used when the restricted funds are depleted.

D. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	30-50
Infrastructure	20-40
Machinery and equipment	5-10

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (Continued)

E. Taxes

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The Town Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

F. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

G. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY (Continued)

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

I. Use of Estimates

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues and expenses. Actual results may vary from these estimates.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the cost of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Town as a whole.

Cost of capital assets	\$2,177,377
Accumulated depreciation	(947,482)
Net adjustment to increase <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>)	<u>\$ 1,229,895</u>

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 2 – (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.”

Capital outlay	\$ 154,770
Depreciation expense	<u>(98,336)</u>
Net adjustment to increase <i>net changes in fund balances-</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u>\$ 56,434</u>

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the Town. Budgets are adopted on a basis consistent with generally accepted accounting principles. Although Utah State Law requires the initial preparation of budgets for all Town funds (both governmental and proprietary), it only requires the reporting of comparisons of actual results to budgets for the general fund and any major special revenue funds.

The Town adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the Town Council in May, the Town administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 – BUDGETS AND BUDGETARY ACCOUNTING (*Continued*)

- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The Town Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The Town Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the Town modified the budget using the above procedures.

NOTE 4 – DEPOSITS AND INVESTMENTS

A. Deposits

Deposits – Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The Town considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. Town funds are deposited in qualified depositories as defined by the Act. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2006, the Town's custodial credit risk for deposits were as follows:

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

DEPOSITS AND INVESTMENTS (Continued)

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	Balance June 30, 2006
Regular Checking Account	Insured	<u>\$ 95,378</u>

B. Investments

The Town's investments are managed through participation in the state Public Treasurer's Investment Fund. As of June 30, 2006, the Town had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurers' Investment Fund	42 days average	<u>\$619,824</u>

Investments – Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk.

Investments – Credit Risk – The Town follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. Town funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the Town to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high-trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah. The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The Town considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The Town has no investment policy that would further limit its investment choices. The PTIF is unrated.

Investments – Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 5 - RECEIVABLES

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Capital Projects</u>	<u>Water</u>	<u>Total</u>
Receivables:				
Taxes	\$ 74,884	\$ -	\$ -	\$ 74,884
Court	3,086	-	-	3,086
Intergovernment	19,702	-	-	19,702
Accounts	-	-	37,614	37,614
Total Receivables	<u>\$ 97,672</u>	<u>\$ -</u>	<u>\$ 37,614</u>	<u>\$ 135,286</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Property taxes receivable (general fund)	\$ 49,684	\$ -

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 18,640	\$ 80,200	\$ -	\$ 98,840
Construction in Progress		20,000		20,000
Total capital assets not being depreciated	<u>18,640</u>	<u>100,200</u>	<u>-</u>	<u>118,840</u>
Capital assets being depreciated:				
Buildings	94,159	-	-	94,159
Machinery and equipment	442,161	11,045	-	453,206
Infrastructure	1,189,597	321,575	-	1,511,172
Total capital assets being depreciated	<u>1,725,917</u>	<u>332,620</u>	<u>-</u>	<u>2,058,537</u>
Less accumulated depreciation for:				
Buildings	41,133	2,554	-	43,687
Machinery and equipment	148,616	61,604	-	210,220
Infrastructure	659,397	34,178	-	693,575
Total accumulated depreciation	<u>849,146</u>	<u>98,336</u>	<u>-</u>	<u>947,482</u>
Total capital assets, being depreciated, net	<u>876,771</u>	<u>234,284</u>	<u>-</u>	<u>1,111,055</u>
Governmental activities capital assets, net	<u>\$ 895,411</u>	<u>\$ 334,484</u>	<u>\$ -</u>	<u>\$ 1,229,895</u>

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

CAPITAL ASSETS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Water stock	14,071	-	-	14,071
Total capital assets not being depreciated	14,821	-	-	14,821
Capital assets being depreciated:				
Water distribution system	1,544,925	318,758	-	1,863,683
Water well & storage tank	244,383	-	-	244,383
Machinery and equipment	49,409	-	-	49,409
Total capital assets being depreciated	1,838,717	318,758	-	2,157,475
Less accumulated depreciation for:				
Water distribution system	435,682	64,983	-	500,665
Water well & storage tank	107,597	5,772	-	113,369
Machinery and equipment	37,409	3,000	-	40,409
Total accumulated depreciation	580,688	73,755	-	654,443
Total capital assets, being depreciated, net	1,258,029	245,003	-	1,503,032
Business-type activities capital assets, net	<u>\$ 1,272,850</u>	<u>\$ 245,003</u>	<u>\$ -</u>	<u>\$ 1,517,853</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 4,677
Public safety	38,195
Highways and public improvements	38,337
Parks and recreation	17,127
Total depreciation expense - governmental activities	<u>\$ 98,336</u>

Business-type activities:

Water and sewer	\$ 73,755
Total depreciation expense - Business-Type Activities	<u>\$ 73,755</u>
Total depreciation expense	<u>\$ 172,091</u>

NOTE 7 - RESERVED FUND BALANCES

Reserved fund balance comprises amounts which the Town has designated for specific purposes or are amounts held by committees for which the Town has oversight responsibility (Class "C" Road, Road Impact Fees, Water Impact Fees, Park Impact Fees).

General Fund		Enterprise Fund	
Road Impact Fees	\$25,673	Water Impact Fees	<u>\$123,755</u>
Park Impact Fees	<u>35,745</u>		
Total	<u>\$61,418</u>		

TOWN OF GENOLA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the Utah Local Governments Trust (a public entity risk pool). All claims are submitted to the Utah Local Governments Trust which acts as a commercial insurer. The Trust is obligated to pay all claims covered by its plan. The Town has not incurred a claim in excess of its coverage for any of the past three fiscal years.

NOTE 9 – OTHER DISCLOSURES

The expenditures in the following department of the General Fund exceeded the adopted budget by the amount shown below:

General government	(\$ 7,816)
--------------------	------------

NOTE 10 – COMMITMENTS AND CONTINGENCIES

The Town is in the process of building a new fire station as of June 30, 2006. The Town has spent \$20,000 for this project.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF GENOLA
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Totals</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
REVENUES				
Taxes	\$ 138,000	\$ 156,346	\$ 243,370	\$ 87,024
Licenses and Permits	30,150	30,150	30,278	128
Intergovernmental	105,750	105,750	121,634	15,884
Charges for Services	10,000	22,000	74,152	52,152
Fines and Forfeitures	25,000	25,000	19,316	(5,684)
Miscellaneous	62,300	198,346	68,869	(129,477)
Total Revenues	<u>371,200</u>	<u>537,592</u>	<u>557,619</u>	<u>20,027</u>
EXPENDITURES				
Current:				
General Government	123,115	128,615	123,355	5,260
Public Safety	93,890	136,740	114,718	22,022
Highways and Public Works	123,600	137,600	145,416	(7,816)
Parks and Recreation	66,941	156,973	155,403	1,570
Total Expenditures	<u>407,546</u>	<u>559,928</u>	<u>538,892</u>	<u>21,036</u>
Excess (Deficit) of Revenues Over (Under) Expenditures	(36,346)	(22,336)	18,727	41,063
Net Change in Fund Balance	<u>(36,346)</u>	<u>(22,336)</u>	<u>18,727</u>	<u>41,063</u>
Fund Balances - Beginning	206,117	206,117	206,117	-
Fund Balances - Ending	<u>\$ 169,771</u>	<u>\$ 183,781</u>	<u>\$ 224,844</u>	<u>\$ 41,063</u>

See accompanying notes to the financial statements

SUPPLEMENTARY INFORMATION

TOWN OF GENOLA
SCHEDULE OF IMPACT FEES
FOR THE YEAR ENDED JUNE 30, 2006

The Town of Genola collects roads, parks and water impact fees. The following is a recap of the impact fees outstanding by year of collection:

<u>Year Collected</u>	<u>Roads</u>	<u>Parks</u>	<u>Water</u>
2003	\$ -	\$ -	\$ 13,856
2004	-	-	34,899
2005	10,373	19,445	36,000
2006	<u>15,300</u>	<u>16,300</u>	<u>39,000</u>
Total	<u>\$25,673</u>	<u>\$35,745</u>	<u>\$123,755</u>

The following capital projects are planned to use the impact fees shown above:

<u>Capital Project Planned</u>	<u>Projected Cost</u>	<u>Estimated Starting Date</u>	<u>Type of Impact Fee</u>
Purchase Radio Read Water Meters	\$70,000.	Winter 2006	Water
800' of culinary water line at 350 East	\$40,000.	Spring 2007	Water
800' of road at 350 East 800 North	\$80,000.	Spring 2007	Roads
Park general plan expansion	\$250,000.	Spring 2007	Parks

GILBERT & STEWART

CERTIFIED PUBLIC ACCOUNTANTS
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable Mayor and Town Council
Town of Genola
Genola, UT

January 19, 2007

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Genola as of and for the year ended June 30, 2006, which collectively comprise the Town of Genola's basic financial statements and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

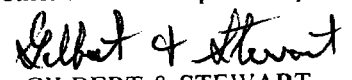
In planning and performing our audit, we considered the Town of Genola's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Genola's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Town of Genola in a separate letter dated January 19, 2007.

This report is intended solely for the information of management, the Town Council, Utah State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

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CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

RANDEL A. HEATON, CPA
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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE WITH APPLICABLE UTAH STATE LAWS AND REGULATIONS

Honorable Mayor and Town Council
Town of Genola
Genola, UT

January 19, 2007

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Genola for the year ended June 30, 2006, and have issued our report thereon dated January 19, 2007. As part of our audit, we have audited the Town of Genola's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major state assistance programs as required by the State of Utah's Legal Compliance Audit Guide for the year ended June 30, 2006. The Town received the following major state assistance programs from the State of Utah:

Class "C" Road Funds (Department of Transportation)
Liquor Law Enforcement (Tax Commission)

The Town also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the Town of Genola's financial statements.)

Fire Department Assistance Grant (Department of Public Safety)

Our audit also included testwork on the Town's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax

Other Compliance Requirements
Justice Courts
Uniform Building Code Standards
Impact Fees and Other Development Fees
Forfeitures

The management of the Town of Genola is responsible for the Town's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the Town of Genola complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major state assistance programs for the year ended June 30, 2006.

This report is intended solely for the information of management and Utah State Auditor and is not intended to be and should not be used by anyone other than these specified parties.


GILBERT & STEWART
Certified Public Accountants

TOWN OF GENOLA
MANAGEMENT LETTER
JUNE 30, 2006

GILBERT & STEWART

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January 19, 2007

Town of Genola
Genola, UT

We have audited the financial statements of Town of Genola for the year ended June 30, 2006 and have issued our report thereon dated January 19, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Town of Genola. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Town of Genola's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Town of Genola are described in Note 1 to the financial statements. No new accounting policies or procedures were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Town of Genola during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Town of Genola's financial reporting process. In our judgment, none of the adjustments we proposed whether recorded or unrecorded by the Town, either individually or in the aggregate, indicate matters that could have a significant effect on the Town's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the government unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Utah State Compliance Findings – Current Year

06-1 **General Compliance – Budgetary Compliance**

Finding: Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that the Highway and Public Works department incurred expenditures in excess of the budget by \$7,816.

Recommendation: We recommend that the Town keeps expenditures within the approved budget.

City's Response: We concur with the finding. We will work toward budgeting properly and maintaining expenditures within the approved budget.

Utah State Compliance Findings – Prior Year

05-1 **General Compliance – Budgetary Compliance**

Finding: Officers and employees of the entity shall not incur expenditures or encumbrances in excess of the total appropriation for any department or fund. We noted that the Highway and Public Works department incurred expenditures in excess of the budget by \$774.

Recommendation: We recommend that the Town keeps expenditures within the approved budget.

City's Response: See current year finding 06-1.

Other Matters for Consideration

1. During our audit, we found that the proper segregation of duties does not exist to provide for a proper internal control structure. Inherent staff limitations placed on small towns makes it difficult to provide for these separations in a cost effective manner. We recommend that, when feasible, the Town provide for proper segregation of duties. However, because in so many instances it is not feasible to provide for these separations, the mayor and town board should constantly be aware of the need for administrative review of transactions and activities of the Town.

This information is intended solely for the use of The Town of Genola and the management of the Town of Genola, and is not intended and should not be used by anyone other than these specified parties.

Very truly yours,



GILBERT & STEWART
Certified Public Accountants